3 MILLION CUSTOMERS A DAY

THE SOUTHLAND CORPORATION
1975
ANNUAL REPORT

THE
SOUTHLAND
CORPORATION

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1 John P. Thompson
Chairman

2 H. E. Hartfelder
Vice Chairman

3 Jere W. Thompson
President

TO OUR SHAREHOLDERS:

1975 was another great year for Southland — a year of solid growth accomplished in a business environment which began with widespread unemployment, uncontrolled inflation, and the most severe recession in more than a generation.

Revenues and earnings again reached all-time highs, showing substantial gains over 1974's excellent results, with a 15.4% increase in net earnings on a 10.9% gain in revenues.

Net earnings reached $34.3 million, up $4.6 million over 1974 results. Revenues increased $176.6 million, to a record $1.789 billion, and showed a strong upward trend during the final half of the year as the economy began a slow recovery. Net return on revenues rose to 1.92% in 1975, up from 1.84% in 1974, although the cost of doing business continued to increase at an alarming rate.

In 1974, when it became apparent that contradictory economic conditions were developing in many areas, strong measures were adopted to further improve product mix, tighten cost controls, and expand profit margins. These effective on-going programs to strengthen sales and earnings were intensified early in 1975, setting the stage for a successful year.

The simultaneous inflation-recession of 1974–1975 had less effect on convenience store performance than on many sectors of retailing. Continued growth of 7-Eleven — serving the needs and desires of 3,000,000 customers a day — as well as the addition of major new dairy accounts, were key reasons for the increase in sales. As in the past, the strength of the Company's financial position, the geographic spread and diversity of operations, a strong marketing orientation, and aggressive and flexible management also contributed to the excellent results.

Southland's confidence in the future of the convenience store business is reflected in the opening of 566 new 7-Eleven's during 1975, the largest number in any single year. Capital expenditures of $71.8 million, $7.3 million more than in 1974, were the second highest in the Company's history. Continued emphasis was placed on Southland's principal business with $51.1 million invested in 7-Eleven stores and the distribution centers. Expenditures of $12.2 million were for improvement and expansion of dairy facilities, including completion of the new Embassy plant in Waldorf, Maryland. An additional investment of $8.5 million was for Special Operations and the Corporate Office.

Early in 1976, the Company and Cavenham Limited restructured their joint retail operations in the United Kingdom. Southland increased its 50% interest in the 365 convenience type CTN stores, which operate primarily under the R. S. McColl Ltd. name, to 69%. An option also was acquired from Cavenham to buy the remaining 31% interest in two years. This will enable Southland to consolidate and reinforce the CTN operation and plan for its future growth. As part of the restructuring, Southland sold to Cavenham its 50% interest in the Wright's and Moores food stores. These transactions will not result in any gain or loss for financial reporting purposes.

The annual cash dividend rate in 1975 was 40¢ and, for the tenth consecutive year, the Board of Directors declared a 3% stock dividend which was issued in

November. A stock purchase plan, recently announced, enables shareholders to authorize automatic investment of cash dividends and additional funds in shares of Southland common stock.

The number of self-service gasoline installations at 7-Eleven stores will be increased during the year, and we plan to market-test a variety of other new services and products designed to build sales and attract new customers. The 1976 merchandising theme, "It's A Pretty Good Deal" — a fact that regular 7-Eleven shoppers have long recognized and one that an increasing number of new customers are discovering — will be featured in radio and television commercials in all major markets.

Although we do not anticipate that the economy will improve dramatically in 1976, the rate of inflation has slackened, and we believe the recovery will continue. However, recognizing that earnings of all businesses will be under pressure throughout the year, we will continue to dedicate our energies to promote growth and control costs while providing services and products that represent sound consumer value.

The Company's demonstrated ability to adapt to changing business conditions, combined with the resources, talents, experience, and dependability of the entire "Southland family," strengthens our confidence that 1976 will be another year of excellent growth.

John P. Thompson

JOHN P. THOMPSON
Chairman

H. E. Hartfelder

H. E. HARTFELDER
Vice Chairman

Jere W. Thompson

JERE W. THOMPSON
President

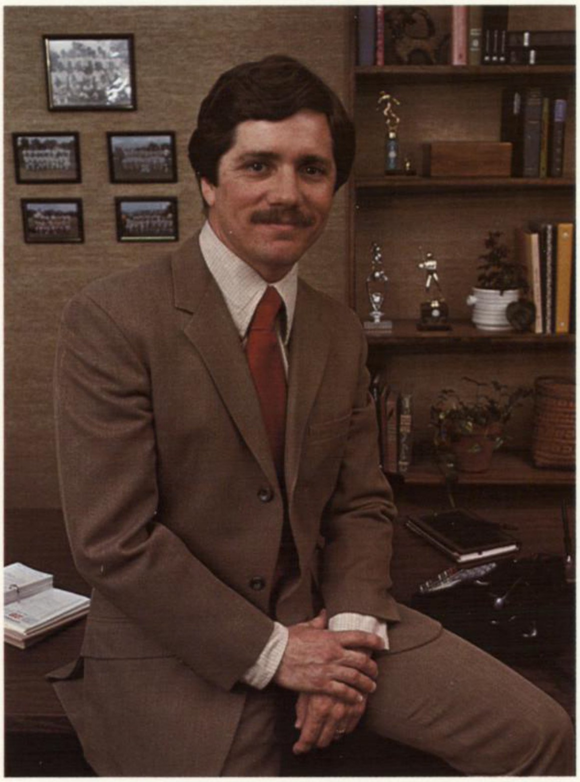
March 17, 1976

COMPARATIVE HIGHLIGHTS

	YEAR ENDED DECEMBER 31		
FOR THE YEAR	1975	1974	% Change
Total Revenues	**$1,789,753,641**	$1,613,124,904	10.9
Net Earnings	**34,318,668**	29,735,793	15.4
Primary Earnings Per Share*	**1.91**	1.70	12.4
Earnings Per Share—Assuming full dilution	**1.84**	1.61	14.3
Cash Dividends	**7,033,407**	5,834,440	20.5
AT YEAR-END			
Working Capital	**94,734,722**	87,151,033	8.7
Current Ratio	**1.78:1**	1.74:1	
Long-Term Debt	**119,910,933**	105,609,159	13.5
Shareholders' Equity	**271,821,110**	243,289,448	11.7
Book Value Per Share*	**15.12**	13.89	8.9
Annual Dividend Rate Per Share	**.40**	.40	
Average Shares Outstanding	**17,976,612**	17,513,446	2.6
Number of Shareholders	**9,093**	9,351	(2.8)
Number of Employees	**28,600**	28,200	1.4

**Based on average number of shares outstanding during the period after adjusting for all stock dividends.*

Who Our 3 MILLION Customers Are



Typical male customers shopped 7-ELEVEN 98 times during 1975. More than one-half are married and own their own homes. Two-thirds live in the neighborhood of "their" 7-ELEVEN store. Almost 87% are employed fulltime. Approximately one-half their purchases were products to take home, the remainder for immediate use.

Typical female customers shopped 7-ELEVEN 92 times during 1975. Approximately 55% are married. More than 76% live in the neighborhood of "their" 7-ELEVEN store, and 46% own their homes. One-half are employed fulltime. Two-thirds of their purchases were products to take home, the remainder for immediate use.

Children and teenagers, most of whom walk or bicycle to "their" neighborhood 7-ELEVEN store on the way to or from school, on weekends, and during vacations, represent almost 19% of all customers. More than half of their purchases include candy, a soft drink, or their favorite *Slurpee.* In addition, they buy comic books, small toys and novelties, snacks, and school supplies.

AND WHAT THEY BOUGHT

Percent Convenience Store Sales (By Principal Product Category)

	1971	1972	1973	1974	**1975**
Tobacco Products	14.0%	15.6%	15.8%	15.7%	**15.6%**
Groceries	17.9	18.2	18.2	17.1	**15.3**
Beer/Wine	12.6	13.5	13.6	14.1	**14.8**
Non-Foods	11.3	10.7	11.4	12.0	**13.4**
Soft Drinks	11.2	11.2	10.8	11.5	**11.5**
Dairy Products	13.4	11.8	11.3	10.5	**9.9**
Baked Goods	6.1	6.0	5.9	5.9	**5.7**
Candy	4.9	4.9	4.8	5.3	**5.7**
Other Food Items	2.1	2.5	3.3	3.9	**4.2**
Health/Beauty Aids	6.5	5.6	4.9	4.0	**3.9**
Total	100.0%	100.0%	100.0%	100.0%	**100.0%**

WHO? HOW OLD? WHEN?

The population mix changes predicted to occur during the next ten years should dramatically increase the number of convenience store customers. By 1985, according to Bureau of the Census projections, there will be 110.5 million people between the ages of 18 and 49, a gain of 17.4 million in the age group which represents 73% of today's **7-ELEVEn** shoppers. The largest shift in population mix, an increase of 26%, is expected to be in the 25 through 49 age group, which now represents 42% of the customers shopping at **7-ELEVEn**.

In the past five years, the population of central cities has declined, while suburbs, primarily in metropolitan areas of one million or more, continued to grow. In addition, many "rural" communities bordering major cities, as well as resort and retirement areas, are experiencing rapid population growth. As these trends continue, each new neighborhood becomes a potential market for **7-ELEVEn** expansion.

More than 25% of the population under 18 in the central cities and 10% in the suburbs are members of families headed by women, most of whom are employed. Also, the number of working wives is increasing rapidly. Forecasts indicate that by the year 2000 the majority of women under 65 will be employed fulltime and the average amount of time devoted to meal preparation will continue to decline sharply. These trends will lead to even greater demand for convenient **7-ELEVEn** shopping and ready-to-eat foods.

As people of all ages enjoy more leisure time, recreational activities, and family togetherness, they rely all the more on **7-ELEVEn** for fun foods, party snacks, and *"Hot to Go"* favorites. Soft drinks, beer, candy, ice cream, sandwiches, snack foods, deli products, and other just-for-fun foods represent 45% of all products selected. **7-ELEVEn**, with approximately 32% of sales on weekends, is also their dependable holiday and nighttime store.

3 MILLION DAILY

	Customers	Percent
Male	2,049,000	68.3
Female	951,000	31.7
	3,000,000	100.0
Age		
11 & Under	204,000	6.8
12-17	360,000	12.0
18-24	951,000	31.7
25-34	774,000	25.8
35-49	486,000	16.2
50 & Over	225,000	7.5
	3,000,000	100.0
Time of Day		
3 am- 7 am	138,000	4.6
7 am-11 am	606,000	20.2
11 am- 3 pm	630,000	21.0
3 pm- 7 pm	693,000	23.1
7 pm-11 pm	723,000	24.1
11 pm- 3 am	210,000	7.0
	3,000,000	100.0

Customer estimates are based upon a study conducted in 1975, by Southland's Market Research Department, of a geographically dispersed random sampling of ***7-ELEVEn*** *stores. Population statistics are from various U.S. Department of Commerce, Bureau of the Census reports.*

Why We Have 3 MILLION Customers

THE RIGHT TIME

Seven days a week, **7-ELEVEN** is the store that is open at the RIGHT TIME — any time a customer wants to shop. Conventional operating hours are 7:00 a.m. to 11:00 p.m., but 4,472 stores remain open longer, 3,703 of them 24 hours each day. Customers who have unexpected needs and those who rise early or retire late think first of **7-ELEVEN**, the store they can depend on any time, all the time. Almost 12% of a day's customers, the late night and early morning shoppers, are attracted to "the store that glows in the dark" for late snacks and cold beverages, or for their morning coffee, cold juices, milk, fresh pastries, newspapers, and cigarettes. "Oh, Thank Heaven for **7-ELEVEN** " — the little store that never sleeps.

The few minutes customers spend in the store is also the RIGHT TIME. When only a few items are needed, they know where to avoid a long checkout line. Convenience store customers are busy people whose time is valuable. And saving time is what **7-ELEVEN** is all about.

THE RIGHT PLACE

In 39 states, Canada, and the District of Columbia, customers shop at **7-ELEVEN** because it is in the RIGHT PLACE — in the neighborhoods where they live and work. The choice of location is deliberate. To assure that each new store will be in the RIGHT PLACE, Southland representatives continually search for potential store sites, project consumer demand from traffic counts, research existing and planned residential units, anticipate population shifts, and identify competition.

Each store site is planned to provide easy entry into the ample parking lot, where the customer is only a few steps from the popular merchandise inside. The products, too, are in the RIGHT PLACE for shoppers to quickly, easily, and comfortably locate items they need. Most stores in each market area have uniform merchandise layouts, enabling visitors in the neighborhood to feel "at home" in any store they shop.

During 1975, Southland opened its first convenience stores in more than 100 communities. **7-ELEVEN** is truly the store that moves with the people!

THE RIGHT PRODUCT

Equally important to customers is finding the RIGHT PRODUCT — just a few steps inside the door. The more than 3,000 available items vary according to geographic, climatic, and socio-economic differences and to the needs and preferences of the customers who live and shop in the neighborhood. Attractively displayed are the most preferred national and regional brands of groceries, candy, milk, other dairy products, household items, cigarettes, beverages — and the latest in records, tapes, toys and novelties. More than half the shoppers who select one of these items — and more than three-fourths of those who shop for bread or other bakery products, deli items, fast foods, *"Hot to Go"* sandwiches, chips, or dips — also make other purchases.

In addition, most stores feature the increasingly popular lines of highest quality **7-ELEVEN** private label merchandise, including hosiery, paper products, soft drinks, charcoal, and fruit juices. In 1976, more than 50 new private label items will be introduced on a test basis, including health and beauty aids, first aid products, mayonnaise, salad dressings, coffee, and other grocery items.

From a broad base of 3,000,000 daily customers, **7-ELEVEN** evaluates changing consumer preferences to assure the RIGHT PRODUCT, in the RIGHT PLACE, at the RIGHT TIME.

More than 68% of the 1975 customers at 7-ELEVEN were males, almost 56% of whom have family incomes of between $10,000 and $20,000. They frequently purchased grocery items, health and beauty aids, and other household products, indicating that the "man of the house" often visits 7-ELEVEN for fill-in family needs. Approximately 64% of purchases by boys under 11, and 53% of those by young men between 12 and 17, included candy, *Slurpee*, or a single soft drink. Males between 18 and 24 most frequently purchased cigarettes, while 27% of their selections were soft drinks or beer. More than 16% of purchases by men between 25 and 34 were cigarettes, and approximately 33% were bread, soft drinks, beer, magazines, or newspapers. More than one-half of purchases by men 35 and over included cigarettes, soft drinks, beer, milk, magazines, or newspapers.

How We Serve 3 MILLION Customers

CONVENIENCE

From a creative merchandising idea conceived almost half a century ago, Southland pioneered a dynamic new concept — CONVENIENCE stores — the fastest growing segment of the retail food industry. Independent sources estimated that by the end of 1975, combined sales of the more than 25,000 convenience stores in the nation had mushroomed to approximately $6.2 billion. **7-ELEVEN** represented more than one-fifth of those revenues as well as store units. The store with the "big red 7 and the bright green Eleven" is an integral part of community life from the Eastern Seaboard to the Pacific Ocean, from Canada to the Rio Grande.

A magnetic attraction to **7-ELEVEN** is CONVENIENCE — a customer service that is often necessary, always valuable, and in ever increasing demand. More than one billion times in 1975, another sale was registered because customers chose to shop the convenient way. In addition to handy locations, friendly customer service, and popular merchandise, most stores offer money orders for sale and TV's or floor waxers and polishers for rent. Seasonally, a wide variety of items such as Christmas trees, shotgun shells, school supplies, and beach and picnic paraphernalia are also featured.

At year-end, 721 stores had self-service gasoline pumps, an increase from 502 the previous year. As more and more motorists are taking advantage of the savings afforded by self-service gasoline, the attractive easy-to-use pumps will be added at a number of stores during 1976.

FRIENDLY SERVICE

A **7-ELEVEN** store develops an intangible quality that can best be described as its "personality." It becomes an active part of the community and a neighborhood center of communication, adapting to its customers' particular way of life and product preferences.

Unlike the sprawling and impersonal supermarkets, **7-ELEVEN** is the friendly store, where customers are frequently known by their first names, where children are treated with respect, where customers are greeted with a smile, and where suggestions are welcomed as opportunities for improvement. Store employees and franchisees, in 121 training stores throughout the nation, learn that FRIENDLY SERVICE, a warm greeting, courteous attention, and fast check-out are synonymous with **7-ELEVEN**.

RESPONSIVE MANAGEMENT

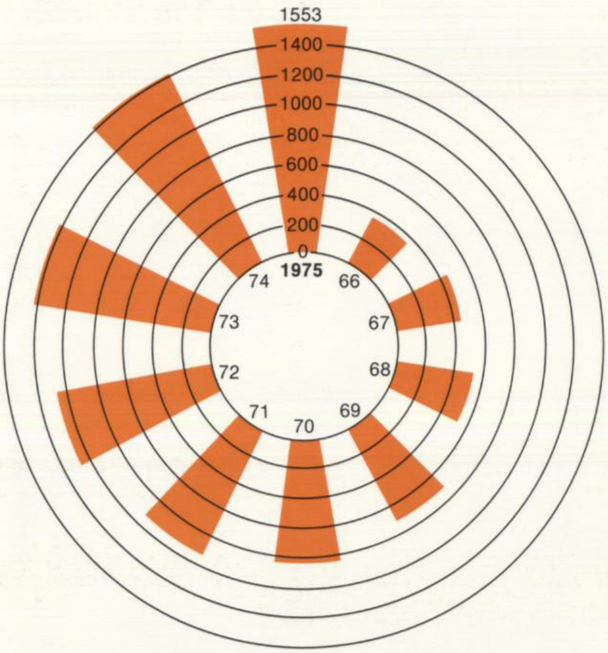
The philosophy of Southland's founder, Joe C. Thompson, was to give the customers "what they want, when they want it, where they want it." From that simple creed emerged the **7-ELEVEN** retailing concept and management system, capable of staffing, merchandising, servicing, and controlling today's 5,579 stores.

Store operations are currently divided into 4 Regions, 17 Divisions, 54 Zones, and 198 Districts. This proven organizational structure has the flexibility to accommodate growth while maintaining effective local management control consistent with corporate policies and goals. To strengthen management and equip field personnel to assume broader responsibilities, specialized training sessions are conducted regularly at the Corporate Training Center in Dallas.

RESPONSIVE MANAGEMENT, fully trained in the philosophy of FRIENDLY SERVICE and CONVENIENCE, is a key factor in providing the RIGHT PRODUCT, in the RIGHT PLACE, at the RIGHT TIME.

Almost 32% of the 1975 customers at 7-ELEVEn were females, 49% of whom have family incomes of between \$10,000 and \$20,000. Although there were fewer female than male customers, the average sale to women was larger. Many wives and working women selected nationally advertised brands of cosmetics, pantyhose, fashion magazines, or novelties in addition to their grocery choices. Approximately 56% of the selections by girls 17 and under were candy, *Slurpee,* or a single soft drink. Women between 18 and 24 most frequently purchased cigarettes or soft drinks, and 25% of their selections included groceries, milk, or candy. Almost 59% of purchases by women between 25 and 34 were cigarettes, bread, soft drinks, groceries, milk, or candy. The most frequently purchased items by women 50 and over were newspapers and magazines.

A Year of Continuing Growth



STORES GROUP SALES In Millions

Stores Group sales surpassed last year's record $1.402 billion, climbing to $1.553 billion, an increase of 10.7%. **7-ELEVEN**, GRISTEDE'S and CHARLES & CO. stores, and BARRICINI candy shops accounted for 87% of corporate revenues.

Sales of **7-ELEVEN** were $1.434 billion, an increase of $144.7 million, or 11.2%, over the previous year. Although the rate of inflation declined during the year, volume continued to increase in established stores. Growing popularity of *"Hot to Go"* fast foods, self-service gasoline, and other innovative **7-ELEVEN** merchandising programs, as well as the addition of new stores, contributed significantly to the gain.

CUSTOMER DEMAND

According to recent independent surveys, annual convenience store sales are increasing at a substantially higher rate than sales of the retail food industry as a whole. In 1975, convenience stores achieved a 4.3% share of the nation's giant $143 billion total grocery market. This share has more than doubled since 1968, a trend which is expected to continue as the population mix changes.

By 1985, young adults — traditionally prime **7-ELEVEN** customers—will be the country's predominant age group. The spendable income of convenience store customers in all groups is increasing as two-income families become the norm and young adults establish separate households. The attendant changes in consumer preferences, as well as increased leisure time, will create more desire for recreation and greater demand for time-savers, ready-to-eat foods, and convenient shopping. **7-ELEVEN** has successfully adapted to the preferences of today's customers and is prepared to serve their needs and desires tomorrow.

STORE GROWTH

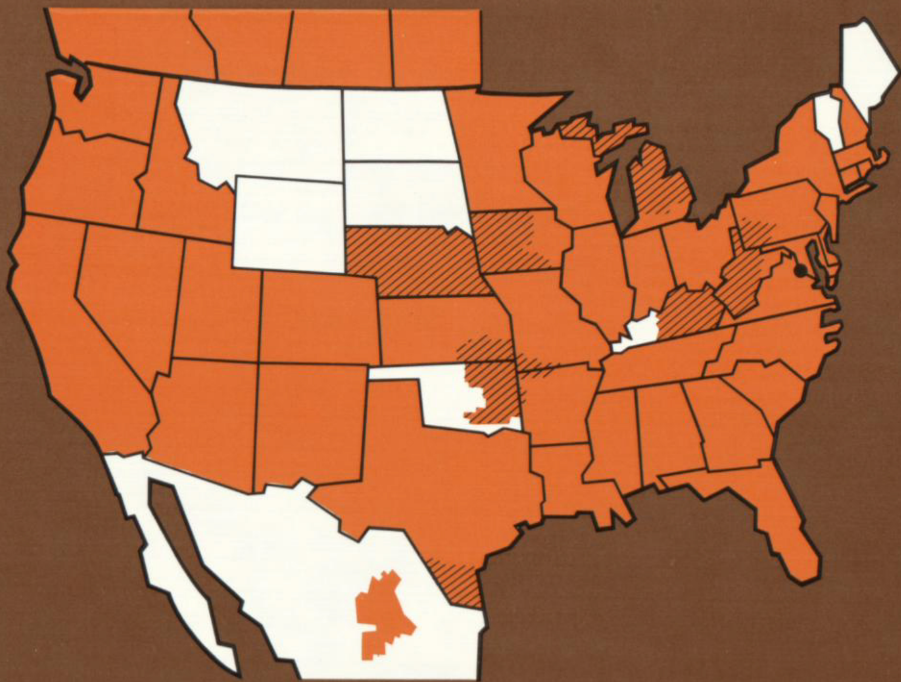
During 1975, the **7-ELEVEN** store construction program was accelerated with the opening of 566 new stores, the largest number in any one year of the Company's history. Because of changing neighborhood and traffic patterns, as well as expiration of leases, 158 stores were closed. **7-ELEVEN** extended operations to a 39th state and a fourth Canadian province when its first stores were opened in Superior, Wisconsin, and Saskatoon, Saskatchewan. Other new markets entered included Iowa City, Amarillo, Duluth, and St. Louis. In addition, **7-ELEVEN** will soon be introduced to the New Orleans and San Antonio markets.

OTHER RETAIL STORES

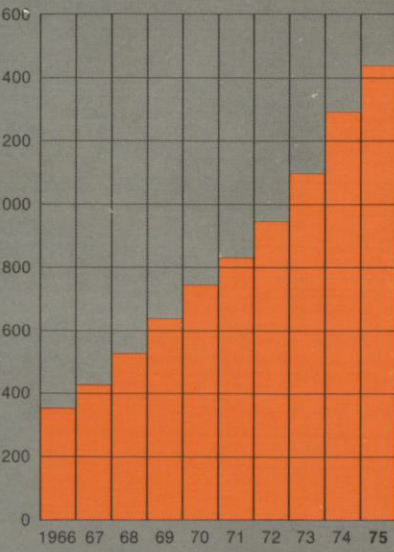
Sales gains were also reported by the GRISTEDE'S and CHARLES & CO. stores serving the greater New York area. GRISTEDE'S features select meats and produce and a full line of premium quality groceries. Special gift packages of fine imported and domestic products are always available from the CHARLES & CO. gourmet stores. The program to discontinue the unprofitable BARRICINI and LOFT'S retail candy shops, started four years ago, was continued in 1975 with the closing of 58 units, leaving 20 for disposition.

Six licensees operate 158 **7-ELEVEN** stores in parts of Arkansas, Iowa, Kansas, Kentucky, Michigan, Missouri, Nebraska, Oklahoma, Pennsylvania, Texas, and West Virginia. Ito-Yokado Co., Ltd., the licensee in Japan, had 67 stores in operation at year-end, and rapid expansion is expected to continue throughout 1976.

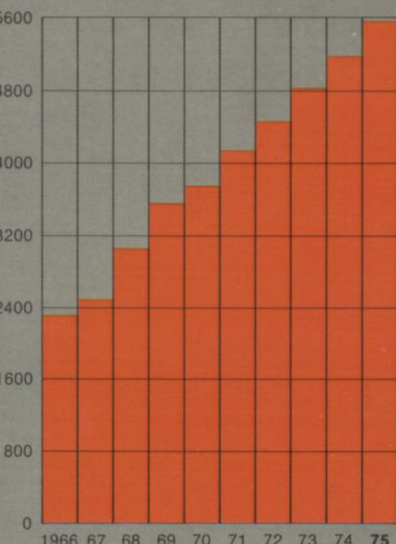
Sales of stores operating under area licenses are not included in Southland's revenues. Although the Company receives a royalty based on the sales volume of the stores, income from these licenses has not been significant.



In parts of 11 states and in Japan, stores are operated or franchised by area licensees.



7-ELEVEN STORES SALES
In Millions
COMPOUND GROWTH RATE: 17.97%



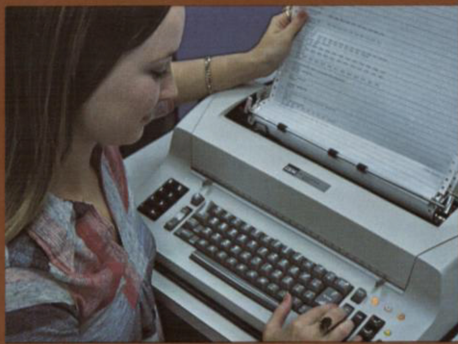
7-ELEVEN STORE GROWTH

STORE SUMMARY

	Opened	Closed	End of Year
7-ELEVEN			
United States	551	157	5,473
Canada	15	1	106
Mexico	—	—	4
Total	566	158	5,583
Gristede's and Charles & Co.	3	10	124
Barricini	—	58	20
Total	569	226	5,727
7-ELEVEN — Area Licenses			
United States			158
Japan			67
Total			225
United Kingdom (CTN)			365

The DISTRIBUTION System

STORE ORDER



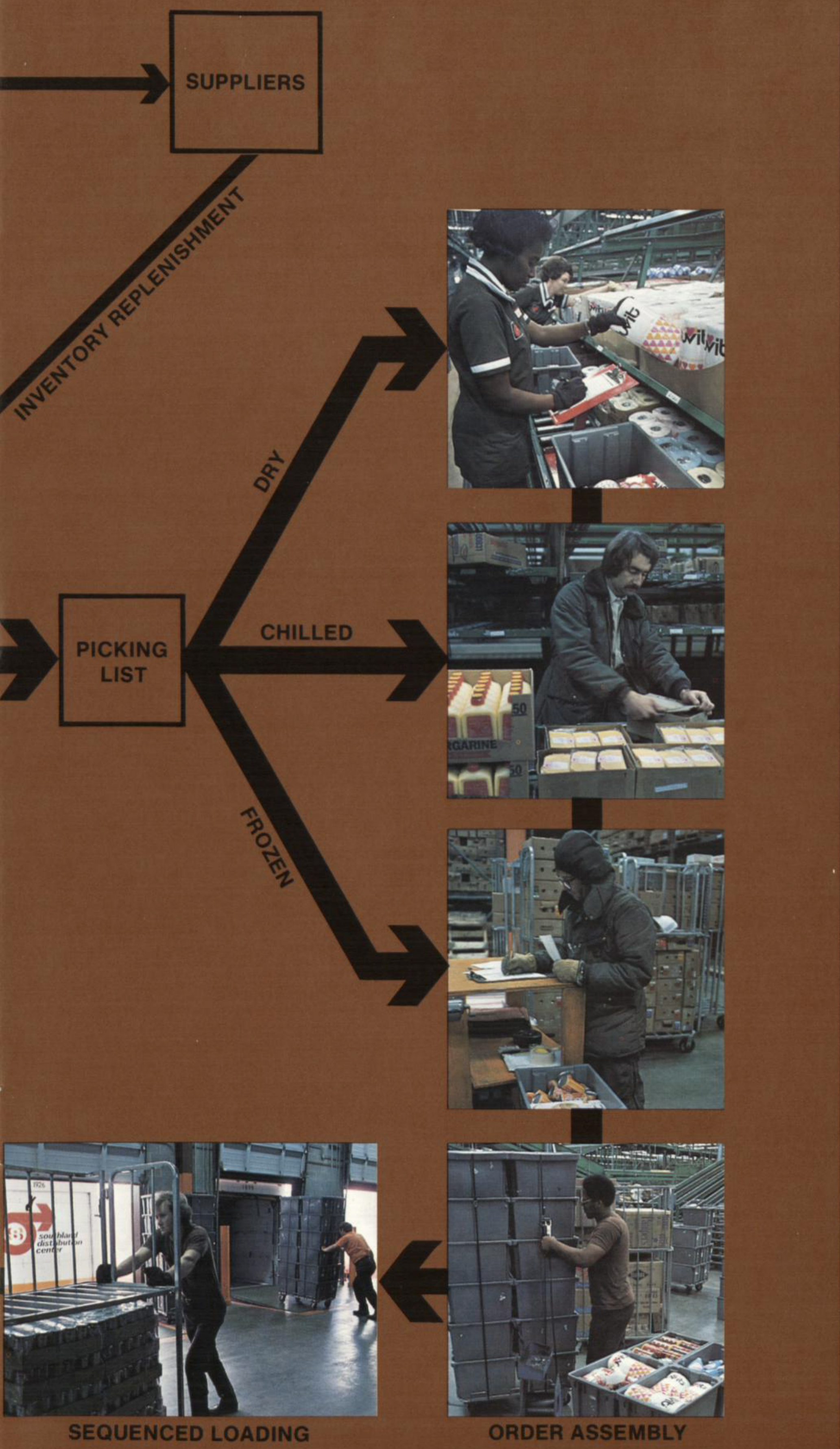
DISTRICT OFFICE TERMINAL

DALLAS COMPUTER CENTER

OPERATING AND MANAGEMENT REPORTS

SOUTHLAND DISTRIBUTION CENTER

STORE DELIVERY



THE DISTRIBUTION SYSTEM

- Customers of 7-ELEVEn set in motion a unique distribution system.
- A computer compiled order form, customized for each individual store, updated monthly, and sequenced to the merchandise layout of that store, is furnished by the Distribution Center.
- The store manager or franchisee visually scans the on-shelf stock, usually on a weekly basis, ordering those items needed in computer determined minimum/ maximum quantities, by easily marking the order form.
- The completed order form is promptly delivered to one of 119 District Offices for immediate transmission via data terminal to the Computer Center.
- The Company's Computer Center in Dallas is the nucleus through which a continual stream of data is received, processed, and relayed.
- The computer assimilates the information and transmits each store order to data processing equipment at the appropriate Distribution Center.
- An 1,100 line-per-minute printer at the Distribution Center prepares product "picking" lists from which the store order is filled and delivered the following day.
- Personnel at the 7-ELEVEn Distribution Center fill each order by "picking" merchandise, most of which is pre-priced and in less than case-lot quantities, from three separate sections — dry, chilled, and freezer.
- Dry merchandise is placed in "tote-boxes," which are moved by a computerized conveyor system to the order assembly point where they are organized, strapped onto carts, and loaded onto a custom designed delivery truck.
- Chilled and frozen merchandise, similarly organized in "tote-boxes," is loaded into the separate chilled and freezer sections of the truck.
- The computer also determines the truck loading sequence for the store orders, the most efficient route for maximum fuel economy, and the times of dispatch, delivery, and return.
- When the truck arrives, the carts are rolled into the store, and empties from the previous delivery are picked up for return.
- As time is available, store personnel quickly and easily stock the merchandise.
- Information concerning product movement — from vendors — to the Distribution Centers — to 7-ELEVEn — to customers — is gathered, compiled, and stored in the computer.
- This completely integrated system provides both field and corporate management with accurate and timely reports.
- Customers of 7-ELEVEn keep the distribution cycle in continuous motion.

Three Regional Distribution Centers now provide 3,184 **7-ELEVEN** stores with about 50% of their merchandise requirements from a selection of approximately 2,300 items. Purchases from any store served by one of these Distribution Centers activate a highly efficient computerized system designed to meet the specific requirements of **7-ELEVEN** — the RIGHT PRODUCT, in the RIGHT PLACE, at the RIGHT TIME.

Sales of the three Distribution Centers, which are not included in Southland's revenues, exceeded $225 million, a gain of 14.3%. In 1975, the Centers achieved an average order fill-rate of 99%, had an average inventory turnover of 29 times, and made a significant contribution to profits.

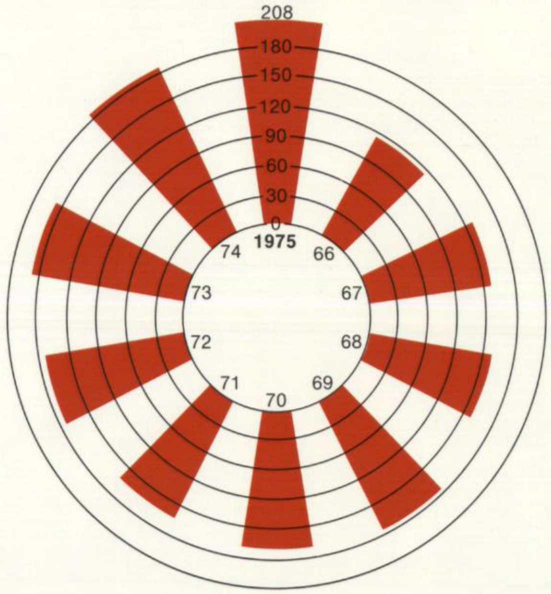
SOUTHLAND DISTRIBUTION CENTER OF FLORIDA

SOUTHLAND DISTRIBUTION CENTER OF TEXAS

SOUTHLAND DISTRIBUTION CENTER OF VIRGINIA

PLEASE OPEN FLAP

Serving the Nation



DAIRIES GROUP SALES In Millions

Dairies Group sales and profits reached all-time highs in 1975. Sales to outside customers increased 13.3% to $208.1 million, and accounted for 12% of corporate revenues. Total sales rose 10.3% to $297.7 million, including intracompany sales of $89.6 million which are not included in corporate revenues. In 1975, Southland Dairies served 3,972 of the convenience stores and supplied 68% of dairy products sold in all **7-ELEVEN** stores.

These excellent results were achieved in a year when gross margins were under pressure from record high farm milk costs, declining per capita consumption, and consumer resistance to price adjustments. Nevertheless, total gallonage increased substantially through aggressive merchandising and the addition of major new customers. Also contributing to the significant profit improvement was the continuation, by an experienced management team, of effective programs to control and reduce expenses.

The Specialty Foods Division processes *Sunny Seven* and *Farm Field* fruit juices, as well as dips, eggnog, toppings, yogurt, and ultra-pasteurized creams, marketed under various Southland brand names and private labels of other industry customers. The division also produces sandwich ingredients for the **7-ELEVEN** *"Hot to Go"* fast foods program and a variety of *Farm Field* meat, vegetable, and fruit salads. The Packaging Division, now a part of the Specialty Foods Division, manufactures gallon and half-gallon plastic milk containers for three Southland Dairies and other customers throughout the Southwest.

The EMBASSY plant in Waldorf, Maryland, which opened in August, is the first all new dairy processing facility built by Southland since 1969. Other capital expenditures during the year were for a new MIDWEST FARMS milk and ice cream distribution branch in Jackson, Tennessee, and enlargement of the OAK FARMS milk plant in Houston. Expansion, automation, and modernization of dairy facilities will continue throughout 1976, including a major enlargement of VELDA FARMS in Miami. BANCROFT in Madison, Wisconsin, will be enlarged and its production capacity increased for processing ultra-pasteurized creams and other specialized products distributed to Southland Dairies and to outside customers.

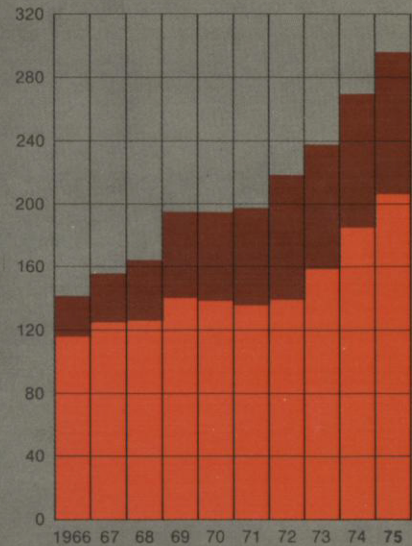
DISTRIBUTION OF DAIRY SALES

CUSTOMERS

	1971	1972	1973	1974	**1975**
Wholesale	44%	48%	49%	54%	**57%**
Intracompany	32	33	34	32	**30**
Distributors and Others	20	16	14	12	**12**
Home Deliveries	4	3	3	2	**1**
Total	100%	100%	100%	100%	**100%**

PRODUCTS

	1971	1972	1973	1974	**1975**
Milk, cottage cheese, and other food items	84%	84%	86%	86%	**86%**
Ice cream and related products	16	16	14	14	**14**
Total	100%	100%	100%	100%	**100%**



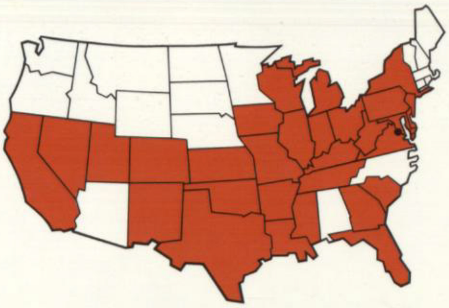
DAIRIES GROUP SALES
(Including Intracompany)
In Millions
COMPOUND GROWTH RATE: 11.87%

INTRACOMPANY

OUTSIDE

The Dairies Group markets a wide variety of milk, ice cream, and related dairy products under 12 respected regional brand names.

EMBASSY—Dairy of the FUTURE



From 30 processing plants, Southland's dairies serve customers in 30 states and the District of Columbia.

The sparkling new EMBASSY milk plant is the most modern dairy facility in the world. Serving customers throughout the Maryland, Virginia, and Washington, D.C. areas, EMBASSY has the capacity to process 100,000 gallons of milk in a scheduled work day, or 50,000 gallons in an 8-hour shift. The 50,250 square feet three-building complex includes a 36,270 square feet plant, a 5,140 square feet office, and a truck service facility of 8,840 square feet.

Through four separate systems unique to the industry, the entire operation is controlled electronically, from receipt of raw milk through processing, order-filling, and truck load-out.

Each stage of processing — receiving, storage, separation, standardization, pasteurization, homogenization, and carton filling — is constantly monitored and controlled from the Processing Computer Control Room. An electronic flow chart, updated every 10 seconds, visually displays the exact quantities and location of fluid milk in process. At any time, the system is capable of providing detailed production reports in only two minutes, a sharp contrast to the eight hours required with conventional methods.

After filling, finished product is automatically placed in cases and transferred by conveyor to the 12,000 square feet refrigerated vault, maintained at a temperature of 32°-35°F. Cased product is moved by computer controlled conveyor to automatic equipment which assembles it in 5-case stacks, then unitizes each 6 stacks on a pallet in preparation for order-filling.

After load sheets for each route are completed, the information is key-punched on cards which activate computerized order-filling and truck load-out. This system is controlled from the Distribution Computer Control Room, elevated to provide an unobstructed view of the entire operation. Three separate order-filling procedures may be involved in completing a route load. Orders for full pallets are selected by vault personnel from computer printed order lists and moved to the order assembly point. Units ordered in less than full pallet quantities are flashed from the Control Room to electronic screens above the picking lines, where they are selected and placed on one of two parallel conveyors — the top for less than case or stack quantities, the lower for full stacks.

Flow racks along the lines are utilized for picking and casing products, such as yogurt, cottage cheese, and sour cream, which are distributed by EMBASSY and purchased from other suppliers, most of whom are Southland Dairies. After cases on the top conveyor are automatically stacked, the two conveyors merge and continue to the load assembly point, where orders are unitized and consolidated before being placed in a refrigerated delivery truck.

Another system was especially designed to maximize product recovery from the processing operation. Each emptied tanker truck and piece of processing equipment is flushed with water to recapture residual fluid milk. This initial rinse is pasteurized and stored in refrigerated tanks for sale, principally to animal feed processors. The remaining solids recovered during regular plant cleaning and sanitizing procedures, are diluted and treated for equalized disposal with minimum ecological effect.

RAW MILK

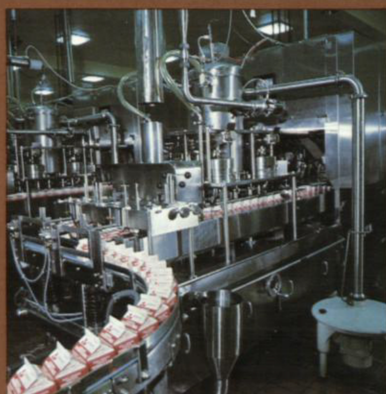

1


2


3


4


5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1 Raw milk is accepted from tanker trucks at 40°F or less, after agitation, testing, and approval by the Quality Assurance Laboratory.

2 A microwave tester analyzes fluid milk for total solids content in only 5 minutes, compared to 45 minutes with less modern test procedures.

3 From the Processing Computer Control Room, the entire processing operation is continuously monitored on the electronic flow chart. Once each 60 seconds, product quality is tested and controlled automatically.

4 This giant holding tube is an integral part of the pasteurization system, which is capable of processing 65,000 pounds of raw milk per hour.

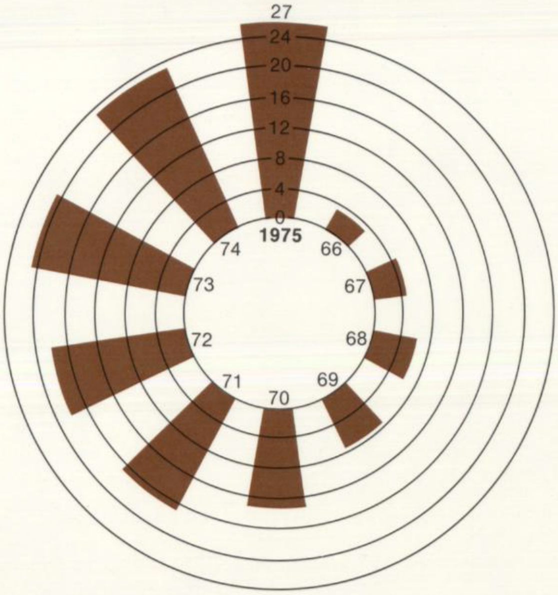
5 An innovative case handling system automatically de-palletizes, de-stacks, washes, sanitizes, and transfers empties to the casing area.

6 Cartons are automatically formed, filled, sealed, and date-coded for freshness.

7 From the elevated Distribution Computer Control Room, order-filling and truck load-out operations are controlled.

8 The units of products ordered in less than full pallets are flashed on electronic screens above the picking lines in the refrigerated vault.

SPECIAL OPERATIONS



SPECIAL OPERATIONS SALES In Millions

Sales of Southland's diversified operations to outside customers increased 15.6% to $26.8 million, and represented 1% of Southland's revenues. Total sales rose 7% to $54.8 million, including $28 million intracompany sales which are not included in corporate revenues.

CHEMICAL

The Company's rapidly growing Chemical Division manufactures a variety of food processing and other chemical products for distribution throughout the United States and in other parts of the world. The division supplies Southland operations with sanitation chemicals as well as food flavorings and other ingredients used in dairy products and in some **7-ELEVEN** private label items. For distribution to outside customers, the division manufactures food stabilizers, flavors, and preservatives, cleaning compounds and sanitizers, lubricants, mirror backing, can-sealants, baking enamels and other industrial coatings, and chemical additives. The division attained excellent sales and profit increases, and the outlook is promising for continued gains in 1976 as new products are developed and distribution expanded. Almost 56% of sales were to outside customers.

FOOD CENTERS

In three Food Processing Centers, high quality sandwiches are prepared under rigid standards to assure locked-in freshness. Through use of microwave ovens, conveniently located in the stores, customers easily prepare many of the items for immediate consumption. Customer sandwich preferences are monitored daily to assure that the most popular items are always available. Weekly production during 1975 averaged more than 350,000 units in a product line of 20 sandwiches, including the customers' favorites — Cheeseburger, Submarine, and Ham and Cheese. In addition to the large-scale sandwich preparation, the Centers process *Slurpee* syrups from flavor concentrates manufactured by the Chemical Division. A variety of sandwiches are sold to outside customers and to the institutional trade under private and controlled labels. Almost 8% of sales were to outside customers.

HUDGINS

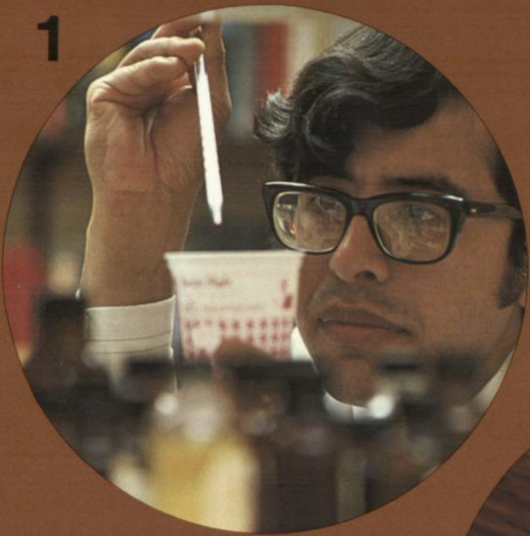
HUDGINS TRUCK RENTAL provides both daily rental and long-term lease vehicles under full-maintenance service from thirteen facilities located in Texas, Missouri, Virginia, and Florida. The division furnishes vehicles for the three Distribution Centers, the Chemical Division, and REDDY ICE. HUDGINS also supplies over-the-road transportation equipment for many national companies which, together with daily rentals to outside customers, accounted for 68% of its revenues.

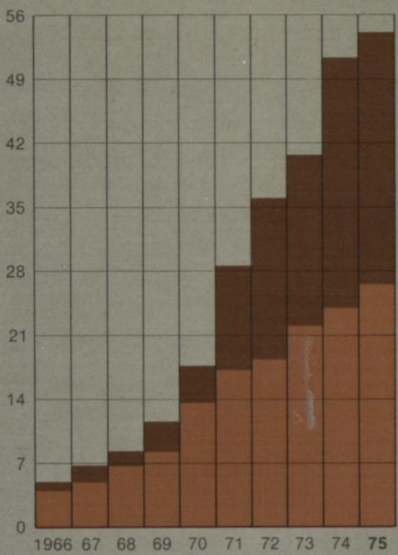
REDDY ICE

An ultra-modern ice manufacturing plant, scheduled for completion in Houston in May, 1976, will have a daily capacity of 160 tons. In addition, the capacities of the Las Vegas and Ft. Lauderdale plants, two of six REDDY ICE manufacturing facilities, were recently increased 24% and 67%, respectively. Approximately two-thirds of sales were to outside customers.

BARRICINI

BARRICINI manufactures and distributes fine chocolates and other candies under the *Barricini* and *Loft's* labels. Although sales to wholesale customers increased in 1975, loss of volume from the retail candy shop closure program, begun in 1972, resulted in a plant loss in 1975. Strong actions have been taken to reduce expenses and correct this condition.





SPECIAL OPERATIONS SALES
(Including Intracompany)
In Millions
COMPOUND GROWTH RATE: 30.22%

INTRACOMPANY

OUTSIDE

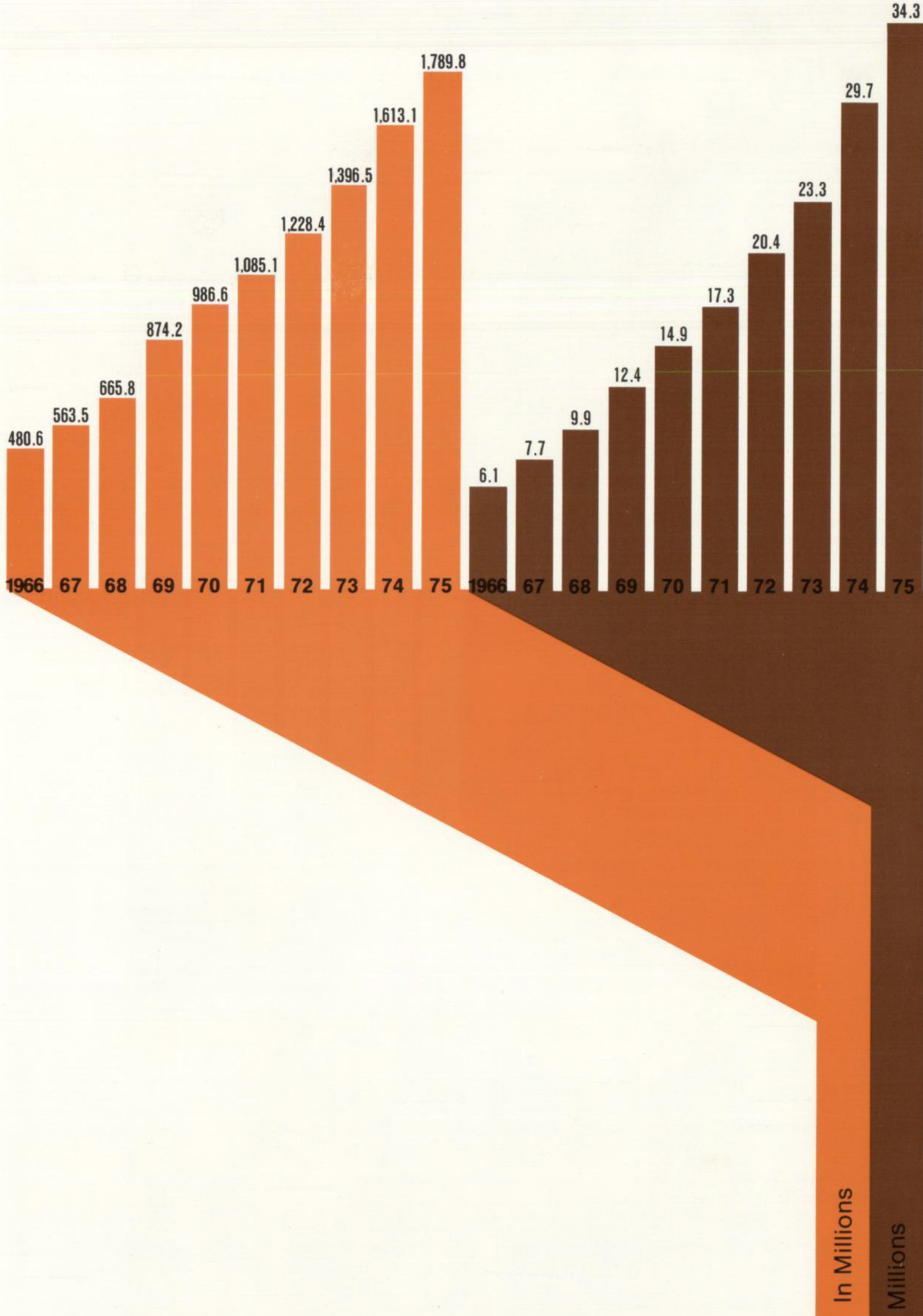
1 CHEMICAL is expanding its line of specialty products distributed to an increasing number of industrial customers.

2 FOOD CENTERS supply *"Hot to Go"* sandwiches, including the popular Ham and Cheese.

3 HUDGINS provides full-maintenance service to its customers — from a single truck rented for one day to a multi-unit fleet on long-term lease.

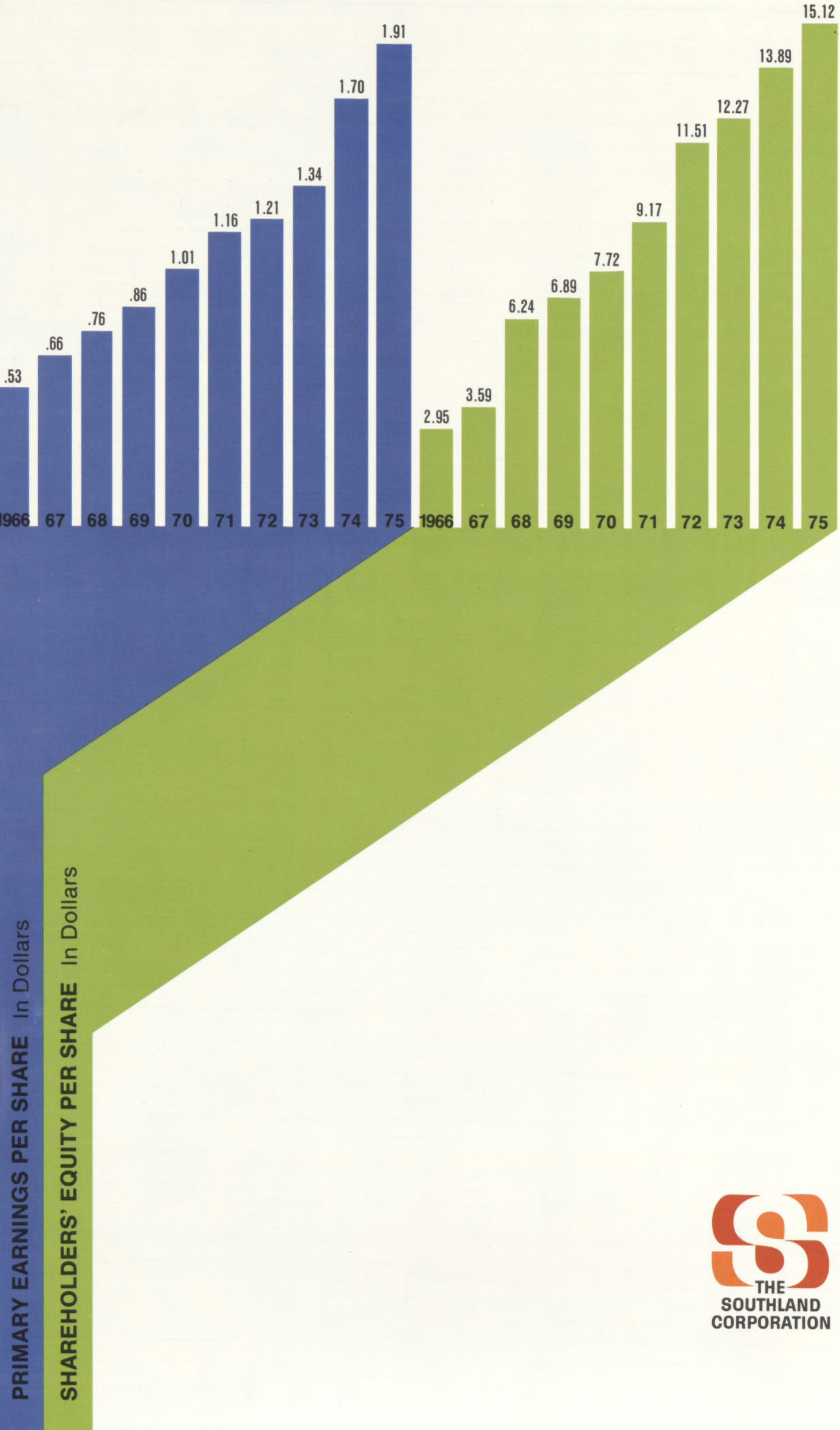
4 REDDY ICE, pre-packaged and marketed from vending machines, is a popular new service to hotels and motels.

5 BARRICINI candies in beautiful packages make gift selection a difficult choice.



TEN YEARS OF GROWTH

The Southland Corporation and Subsidiaries



THE SOUTHLAND CORPORATION

REVENUES

The 10.9% increase in revenues, resulting from continued internal growth in Southland's principal lines of business, was an excellent gain considering that the rate of inflation declined substantially during the year. Revenues reached an all-time high of $1.789 billion, up $176.6 million over last year's record of $1.613 billion.

Sales of the Stores Group rose 10.7% through more efficient use of selling space, increased volume in established stores, and continuation of the favorable trend in consumer demand for convenient shopping, as well as new store openings. The Dairies Group increased sales 13.3%, and Special Operations achieved gains of 15.6%.

REVENUES (Millions)

QUARTER	1975	1974	% Gain
First	**$ 393.5**	$ 354.9	**10.9**
Second	**446.8**	413.7	**8.0**
Third	**478.6**	434.8	**10.1**
Fourth	**470.9**	409.7	**14.9**
TOTAL	**$1,789.8**	$1,613.1	**10.9**

The Stores Group represented 87% of total corporate revenues while the Dairies Group accounted for 12% and Special Operations and other income the remaining 1%.

NET EARNINGS

Consolidated net earnings for the year also reached a new high of $34.3 million, up $4.6 million from 1974 earnings of $29.7 million. The 15.4% gain was the result of increased sales, improved product mix, creative advertising and merchandising, and effective on-going programs to control and reduce expenses. Profit margins continued to improve as net return on revenues rose to 1.92% in 1975, up from 1.84% in 1974.

NET EARNINGS (Thousands)

QUARTER	1975	1974	% Gain
First	**$ 4,161**	$ 3,469	**20.0**
Second	**10,809**	9,709	**11.3**
Third	**11,414**	9,681	**17.9**
Fourth	**7,935**	6,877	**15.4**
TOTAL	**$34,319**	$29,736	**15.4**

Net earnings reflect a 50.5% provision for state and federal income taxes in 1975, compared with a 49.6% rate in 1974.

EARNINGS PER SHARE

Primary earnings per share increased 12.4% to $1.91, from $1.70 in 1974. Average shares outstanding were 17,976,612, up 2.6% over the 17,513,446 shares outstanding the previous year.

Assuming full dilution, earnings per share of $1.84 for the year rose 14.3% over 1974 earnings of $1.61. Diluted earnings were computed on the basis of 19,112,093 average shares, compared with 19,085,040 a year earlier.

	PRIMARY			DILUTED		
QUARTER	**1975**	1974	% Gain	**1975**	1974	% Gain
First	**$ .23**	$ .20	**15.0**	**$ .23**	$ .20	**15.0**
Second	**.60**	.56	**7.1**	**.58**	.52	**11.5**
Third	**.64**	.55	**16.4**	**.61**	.52	**17.3**
Fourth	**.44**	.39	**12.8**	**.42**	.37	**13.5**
TOTAL	**$1.91**	$1.70	**12.4**	**$1.84**	$1.61	**14.3**

During the past ten years, Southland's primary earnings per share have compounded at an average annual rate of 15.3%. Diluted earnings per share during the same period have achieved a 15.1% compound annual growth rate and have more than doubled in the past five years.

SHAREHOLDERS' EQUITY PER SHARE

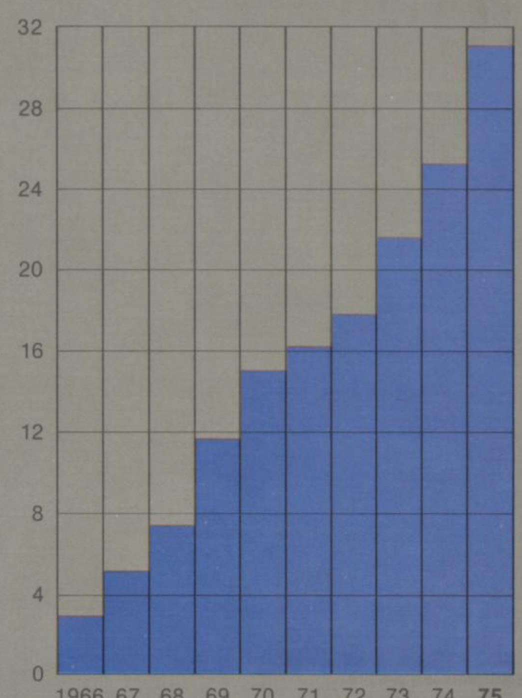
At December 31, 1975, book value per share (shareholders' equity divided by average primary shares outstanding) was $15.12, compared with $13.89 at the close of 1974, an increase of $1.23 or 8.9%.

Shareholders' equity rose to $271.8 million at year-end, from $243.3 million a year earlier, reflecting a compound annual growth rate over the past ten years of 25.1%. Net earnings of $27.2 million after dividends were retained for investment in the future growth of the Company.

During the year, shareholders' equity also was increased by the conversion of $737,000 of 5¾% Convertible Subordinated Notes Due 1987 into common stock.

Return on 1975's beginning shareholders' equity (net earnings divided by equity) increased to 14.1%, compared with 13.9% for the previous year.

PROPERTY, PLANT, AND EQUIPMENT (NET)
In Millions



DEPRECIATION
In Millions

Capital Investment

Investment in property, plant, and equipment for 1975 increased $7.3 million to $71.8 million, the second highest in Southland's history. The Company financed 72%, or $51.6 million, of the capital investments from funds provided by operations and the remaining $20.2 million from real estate mortgages.

Capital outlays for 7-Eleven stores and the distribution centers were $51.1 million, or 71% of total additions to fixed assets. Expenditures for the Dairies Group were $12.2 million, or 17%, and for Special Operations and the Corporate Office $8.5 million, or 12%.

Southland has increased its investment in property, plant, and equipment, after accumulated depreciation, from $47.6 million in 1966 to $290.6 million in 1975.

Investment in property increased $9.8 million to $47.3 million, representing funds temporarily invested in facilities, principally store locations which, after completion, the Company expects to mortgage or sell to outsiders for cash and lease back.

Southland emphasizes ownership of fixed assets although most of its retail store operations are conducted in leased facilities. The Company provides interim financing for capital expenditures while permanent financing of fixed assets is a combination of internally generated funds, debt securities, and real estate mortgages.

Depreciation

Depreciation and amortization expense for 1975 increased $5 million, up 19.7% to $30.2 million, compared with $25.2 million for the previous year.

At year-end, the Company's investment in property, plant, and equipment, before depreciation, was $427.7 million, compared with $374.2 million a year earlier, an increase of $53.5 million.

Capitalization and Financial Position

At year-end, 18,036,037 shares of common stock were outstanding, compared with 17,428,343 shares a year earlier, an increase of 607,694 shares. The 3.5% increase in shares outstanding is the result of issuing 32,112 shares upon the exercise of stock options, 519,912 shares in payment of a 3% stock dividend, and 55,670 shares for conversion of the 5¾% Convertible Subordinated Notes. At December 31, 1975, 1,071,341 shares were reserved for issuance upon conversion of notes and debentures and 218,354 shares for issuance under the employees' stock option plan and the key employees incentive plan.

Long-term debt increased $14.3 million to $119.9 million, compared with $105.6 million at the close of 1974, reflecting debt repayment and the mortgage financing of stores and the Embassy Dairies facility. Total capitalization (long-term debt plus shareholders' equity) at December 31, 1975, was $391.7 million, with long-term debt representing 30.6% of the total — relatively unchanged from 30.3% a year earlier.

Working capital (current assets minus current liabilities) at the end of the year was $94.7 million, compared with $87.2 million in 1974, an increase of $7.5 million. Receivables and inventories were up $13.3 million, principally as the result of increased sales and merchandise requirements for new 7-Eleven stores. The ratio of current assets to current liabilities was 1.78:1 compared with 1.74:1 in 1974. The Company had no short-term debt outstanding at year-end.

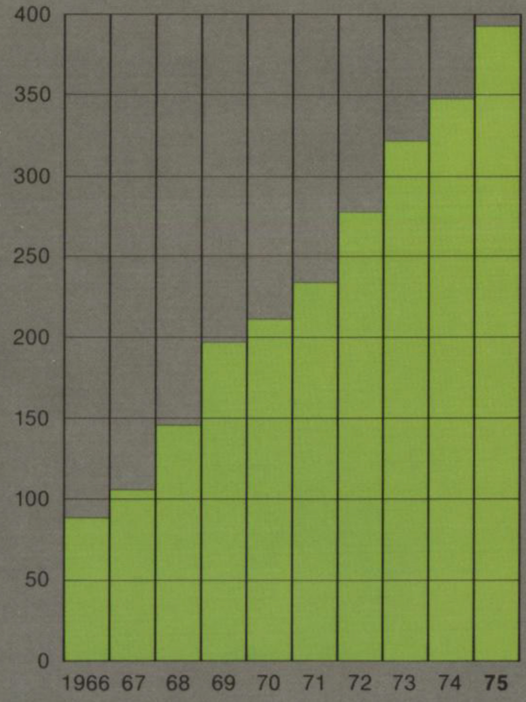
Dividends

The annual cash dividend rate in 1975 was 40¢ a share, compared with 35¢ paid in 1974. Total cash dividends were $7,033,407, an increase of 20.5% over the $5,834,440 paid the previous year. In 1975, 20.8% of net earnings were distributed to shareholders, compared with 19.8% a year ago. The Company has declared cash dividends each year since 1957 and, during that time, has raised the rate nine times.

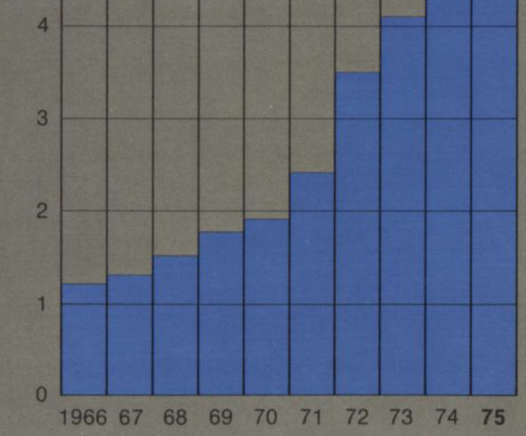
For the tenth consecutive year, a 3% stock dividend was declared, and in November, 1975, 519,912 shares were issued. The Company has distributed stock dividends or stock splits each year, except 1964, since 1958.

Dividends Paid Per Common Share

CASH:		
Quarter	**1975**	1974
First	**$.10**	$.07½
Second	**.10**	.07½
Third	**.10**	.10
Fourth	**.10**	.10
Total	**$.40**	$.35
STOCK:	**3%**	3%



CAPITALIZATION
(Shareholders' Equity Plus Long-Term Debt)
In Millions



CASH DIVIDENDS
In Millions

Foreign Investments

In January, 1976, Southland and Cavenham Limited restructured their joint United Kingdom retail interests in order to consolidate operations and plan the future growth of the respective companies.

Southland purchased from Cavenham, for approximately $2.9 million, an additional 19% interest in Southland-Cavenham Limited, increasing its ownership to 69%. The Company also acquired an option to purchase, in two years, Cavenham's remaining 31% interest for $3.1 million. At the same time, Southland sold its 50% interest in Cavenham-Southland Limited to Cavenham for $6.3 million. These transactions will not result in any gain or loss for financial reporting purposes. Sales of these operations are not included in Southland's revenues.

For the 12-month period ended October 11, 1975, sales of the 365 convenience type CTN stores (confectionery, tobacco, news), wholly owned by Southland-Cavenham Limited, were $70.2 million, compared with $52.5 million for the previous year, up 33%. The substantial gain in sales volume was heavily influenced by inflation; however, the long range prospects for this operation will continue to be affected by the adverse economic climate in the United Kingdom and continuing government restrictions on profit margins.

Wright's and Moores, wholly owned by Cavenham-Southland Limited, operates 524 retail grocery outlets in England, Scotland, and Wales under various trade names. For the 12-month period ended October 11, 1975, sales were $163.7 million, compared with $163.1 million for the previous year.

For the fiscal year, Southland's equity in earnings of affiliates — stated net of interest on funds used to make the investments, amortization of the excess of investments over net assets acquired, and foreign and U.S. taxes — was $598,528, compared with $611,310 for 1974. Sales and earnings were converted to U.S. dollars at the average rates of exchange during the reported periods.

Profit Sharing and Pension Plans

The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on pretax earnings. All required contributions to union pension plans have been made.

Market Data

The Company's stock is listed on the New York Stock Exchange and trades under the symbol **SLC.** The following market price and earnings per share information has been adjusted for 3% stock dividends in each year. The price/earnings ratios are based upon primary earnings per share for the four preceding quarters.

Southland Common Stock

Quarter	Price Range		Price/Earnings Ratio	
1974	High	Low	High	Low
First	17⅝	12½	13.2	9.3
Second	20¾	16½	15.0	12.0
Third	18⅝	12½	12.1	8.1
Fourth	17⅜	12⅞	10.6	7.9
1975				
First	**23¼**	**15¼**	**13.7**	**9.0**
Second	**28⅝**	**21½**	**16.5**	**12.4**
Third	**28⅜**	**22⅜**	**16.0**	**12.6**
Fourth	**24¾**	**20**	**13.3**	**10.8**

THE SOUTHLAND CORPORATION

TEN YEARS OF GROWTH

The Southland Corporation and Subsidiaries

(Dollars in thousands except per share data)

	1966	1967	1968	1969	1970
Operations					
Total revenues	$ 480,571	$ 563,540	$ 665,764	$ 874,220	$ 986,580
Increase for the year	*31.60%*	*17.26%*	*18.14%*	*31.31%*	*12.85%*
Net earnings*	6,105	7,695	9,862	12,436	14,895
Increase for the year	*16.57%*	*26.04%*	*28.16%*	*26.10%*	*19.77%*
Per revenue dollar	*1.27%*	*1.37%*	*1.48%*	*1.42%*	*1.51%*
Return on beginning shareholders' equity	21.14%	22.68%	23.69%	15.32%	14.96%
Assets Employed					
Working capital	41,588	41,537	56,906	76,487	79,856
Property, plant, and equipment (net)	47,620	68,481	96,607	132,494	143,610
Depreciation provision	2,763	5,033	7,343	11,616	15,009
Capitalization					
Long-term debt	52,527	63,512	63,887	97,913	97,299
Shareholders' equity	33,931	41,630	81,170	99,546	113,285
Per Share Data**					
Primary earnings	.53	.66	.76	.86	1.01
Fully diluted earnings	.50	.61	.69	.77	.91
Cash dividends	.11	.12	.12	.12	.13
Shareholders' equity	2.95	3.59	6.24	6.89	7.72
Other Data					
Stock dividends	3%	3%	3%	3%	3%
Stock splits			3-for-2		
Average primary shares outstanding	11,504,151	11,590,272	13,007,052	14,457,340	14,680,849
Average diluted shares	12,816,136	13,139,873	15,250,719	17,769,024	18,209,485
Number of shareholders	2,111	2,816	7,457	8,079	8,249
Number of employees	12,800	13,900	16,900	19,500	18,900

*Before extraordinary income

**Based on average shares outstanding adjusted for stock dividends and splits

1971	1972	1973	1974	1975	*10 Year Compound Growth*
$ 1,085,107	$ 1,228,350	$ 1,396,491	$ 1,613,125	**$ 1,789,754**	17.23%
9.99%	*13.20%*	*13.69%*	*15.51%*	**10.95%**	
17,300	20,366	23,328	29,736	**34,319**	20.68%
16.15%	*17.72%*	*14.55%*	*27.47%*	**15.41%**	
1.59%	*1.66%*	*1.67%*	*1.84%*	**1.92%**	
15.27%	14.85%	12.01%	13.93%	**14.11%**	
83,689	107,912	95,973	87,151	**94,735**	
155,688	165,270	219,262	253,864	**290,583**	
16,247	17,862	21,543	25,250	**30,214**	
95,192	82,043	107,496	105,609	**119,911**	
137,132	194,202	213,445	243,289	**271,821**	25.13%
1.16	1.21	1.34	1.70	**1.91**	15.30%
1.05	1.14	1.28	1.61	**1.84**	15.12%
.16	.21	.24	.33	**.39**	
9.17	11.51	12.27	13.89	**15.12**	19.48%
3%	3%	3%	3%	**3%**	
3-for-2					
14,946,555	16,875,037	17,394,066	17,513,446	**17,976,612**	
18,194,730	18,600,600	19,089,456	19,085,040	**19,112,093**	
8,866	9,418	9,476	9,351	**9,093**	
21,500	24,100	26,800	28,200	**28,600**	

Management's Discussion and Analysis of the Summary of Earnings

Southland's revenues have steadily increased each year during the past five years, from $1.085 billion in 1971 to $1.789 billion in 1975, a compound growth rate of 12.7%. This upward trend is the result of internal growth and expansion of the Company's major lines of business and certain acquisitions in 1971.

In 1975, revenues increased $176.6 million, up 10.9%, compared with a 15.5% gain in 1974 of $217 million. Continued consumer demand for convenient shopping, gains in average sales volume per store, increases in selling prices to offset higher merchandise costs, the opening of new 7-Eleven stores, and the addition of substantial dairy business contributed to the growth of revenues. The Company opened a net of 408 convenience stores in 1975, up from 370 the previous year.

Other income, including interest income, was $1.8 million for the year, compared with $3.9 million in 1974, as the Company chose to invest its cash reserves to finance a major portion of its capital expenditure program. In 1974, other income increased $1 million from $2.9 million in 1973, principally due to interest income from cash investments and inclusion of fees from the Japanese license agreement.

Throughout the past five years, the Company has been able to maintain stable gross margins even though operating in an environment of complex and rapidly changing economic conditions which included government controls, inflation, recession, and erratic swings in product costs. Gross margins improved in each of the years except 1975, when simultaneous inflation-recession caused margins to decline slightly to 25.57% from a record 26.12% in 1974 and 25.93% in 1973.

The Company, through effective programs to control and reduce inflation-fueled costs, was able to lower the ratio of expenses to revenues to 21.76% in 1975 — the lowest in five years — compared with 22.53% in 1974 and 22.77% in 1973. Interest expense decreased to $7.1 million, from $7.8 million in 1974, reflecting the conversion late that year of subordinated debt. This followed an increase in 1974 of $2.6 million, primarily resulting from mortgage financing the prior year.

The Company's ability to increase sales volume, control costs, and maintain stable gross margins has resulted in an increase in pretax return on revenues from 3.16% in 1973, to 3.59% in 1974, and 3.81% in 1975.

Special Operations represented 1% of corporate operating profits in 1975, compared with 5% in 1974 and 4% in 1973. This decline was due solely to a loss in the Barricini plant, which resulted from the reevaluation of inventories to reflect declining commodity costs, continuing fixed expenses, and a reduction in volume associated with the retail candy shop closure program initiated in 1972. Operating economies have been completed, with manufacturing expenses sharply curtailed, inventories reduced, and production schedules adjusted to current sales levels.

Contributions to The Southland Corporation Employees' Savings and Profit Sharing Plan increased 29.4% in 1974, to $5.9 million, and 18.6% in 1975, to $7 million, as a result of increased earnings before income taxes.

Net earnings as a percent of revenues have improved each of the last five years. In 1975, earnings were $34.3 million, up 15.4% from 1974 earnings of $29.7 million, a 27.5% increase over 1973.

Summary of Earnings and Expense as a Percent of Total Revenues

	1975	1974	1973	1972	1971
Revenues	**100.00%**	100.00%	100.00%	100.00%	100.00%
Cost of Sales	**74.43**	73.88	74.07	74.77	75.03
Gross Margin	**25.57**	26.12	25.93	25.23	24.97
Expenses	**21.76**	22.53	22.77	22.03	21.79
Earnings Before Income Taxes	**3.81**	3.59	3.16	3.20	3.18
Net Earnings	**1.92%**	1.84%	1.67%	1.66%	1.64%

Lines of Business (Years Ended December 31)

	REVENUES					OPERATING PROFITS				
	1975	1974	1973	1972	1971	**1975**	1974	1973	1972	1971
Stores Group	**87%**	87%	87%	86%	86%	**88%**	85%	86%	87%	87%
Dairies Group	**12**	11	11	12	13	**11**	10	10	9	11
Special Operations	**1**	2	2	2	1	**1**	5	4	4	2
Total	**100%**	100%	100%	100%	100%	**100%**	100%	100%	100%	100%

STATEMENT OF CONSOLIDATED EARNINGS

The Southland Corporation and Subsidiaries

Years ended December 31 (Dollars in thousands except per share data)

	1975	1974	1973	1972	1971
Revenues:					
Net sales (Note 1)	**$1,787,928**	$1,609,257	$1,393,622	$1,226,189	$1,084,573
Other income	**1,826**	3,868	2,869	2,161	534
	1,789,754	1,613,125	1,396,491	1,228,350	1,085,107
Cost of Sales and Expenses:					
Cost of goods sold, including buying and occupancy expenses	**1,332,132**	1,191,819	1,034,391	918,419	814,150
Selling, general and administrative expenses	**375,382**	349,759	308,163	262,348	226,853
Interest expense	**7,066**	7,805	5,233	4,079	5,855
Contributions to Employees' Savings and Profit Sharing Plan	**6,995**	5,899	4,558	4,161	3,691
	1,721,575	1,555,282	1,352,345	1,189,007	1,050,549
Earnings Before Income Taxes, Equity in Earnings of Affiliates and Extraordinary Item	**68,179**	57,843	44,146	39,343	34,558
Income Taxes (Note 10)	**34,459**	28,718	21,746	19,396	17,299
Earnings Before Equity in Earnings of Affiliates and Extraordinary Item	**33,720**	29,125	22,400	19,947	17,259
Equity in Earnings of Affiliates (Note 2)	**599**	611	928	419	41
Earnings before Extraordinary Item	**34,319**	29,736	23,328	20,366	17,300
Extraordinary Item	**—**	—	—	—	497
Net Earnings	**$ 34,319**	$ 29,736	$ 23,328	$ 20,366	$ 17,797
Per Share (Note 11):					
Primary earnings:					
Before extraordinary item	**$1.91**	$1.70	$1.34	$1.21	$1.16
Extraordinary item	**—**	—	—	—	.03
Net earnings	**$1.91**	$1.70	$1.34	$1.21	$1.19
Earnings assuming full dilution:					
Before extraordinary item	**$1.84**	$1.61	$1.28	$1.14	$1.05
Extraordinary item	**—**	—	—	—	.03
Net earnings	**$1.84**	$1.61	$1.28	$1.14	$1.08

See notes to financial statements.

CONSOLIDATED BALANCE SHEET

The Southland Corporation and Subsidiaries

ASSETS

	December 31 1975	December 31 1974
Current Assets:		
Cash	**$ 6,528,267**	$ 8,805,756
Cash investments	**—**	8,929,168
Accounts and notes receivable (Note 3)	**59,770,569**	53,744,967
Inventories (Note 1)	**92,384,274**	85,111,862
Deposits and prepaid expense	**10,681,036**	10,183,818
Investment in property (Note 4)	**47,284,415**	37,486,563
Total Current Assets	**216,648,561**	204,262,134
Investments in Affiliates (Notes 1 and 2)	**25,623,353**	24,587,140
Other Assets	**4,122,681**	3,272,163
Property, Plant and Equipment (Notes 1 and 5)	**290,583,343**	253,863,823
	$536,977,938	$485,985,260

See notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31 1975	December 31 1974
Current Liabilities:		
Long-term debt due within one year	**$ 4,627,439**	$ 7,577,148
Accounts payable and accrued expense	**108,274,288**	99,965,396
Income taxes	**9,012,112**	9,568,557
Total Current Liabilities	**121,913,839**	117,111,101
Deferred Credits (Note 7)	**23,332,056**	19,975,552
Long-Term Debt, due after one year (Note 6)	**119,910,933**	105,609,159
Contingencies and Commitments (Note 9)		
Shareholders' Equity (Notes 6 and 8):		
Common stock, $.01 par value, authorized 40,000,000 shares, issued and outstanding 18,036,037 and 17,428,343 shares	**180,360**	174,283
Additional paid-in capital	**189,165,594**	175,472,195
Earnings retained in the business	**82,475,156**	67,642,970
	271,821,110	243,289,448
	$536,977,938	$485,985,260

See notes to financial statements.

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY

The Southland Corporation and Subsidiaries

	Year ended December 31 1975	1974
Common Stock:		
Balance January 1	**$ 174,283**	$ 163,960
Exercise of stock options	**321**	3
3% Stock dividend	**5,199**	4,951
Conversion of notes	**557**	5,369
Balance December 31	**180,360**	174,283
Additional Paid-in Capital:		
Balance January 1	**175,472,195**	162,545,280
Exercise of stock options	**614,245**	5,793
3% Stock dividend	**12,342,711**	6,926,491
Conversion of notes	**736,443**	5,994,631
Balance December 31	**189,165,594**	175,472,195
Earnings Retained in the Business:		
Balance January 1	**67,642,970**	50,735,332
Net earnings for the year	**34,318,668**	29,735,793
	101,961,638	80,471,125
Less:		
Cash dividends	**7,033,407**	5,834,440
Cash paid in lieu of fractional shares	**105,165**	62,273
3% Stock dividend	**12,347,910**	6,931,442
	19,486,482	12,828,155
Balance December 31	**82,475,156**	67,642,970
Total Shareholders' Equity (Notes 6 and 8)	**$271,821,110**	$243,289,448

See notes to financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

The Southland Corporation and Subsidiaries

	Year ended December 31 1975	1974
Source of Funds:		
From operations:		
Net earnings	**$ 34,318,668**	$ 29,735,793
Depreciation	**30,214,211**	25,249,932
Deferred income taxes and other credits	**4,649,451**	3,108,806
Funds provided by operations	**69,182,330**	58,094,531
Long-term debt	**20,174,373**	12,060,992
Conversion of notes	**737,000**	6,000,000
Exercise of stock options	**614,566**	5,796
Increase in accounts payable, accruals and income tax	**7,752,447**	14,814,287
Property retirements and sales	**3,558,055**	3,679,704
Decrease in cash and cash investments	**11,206,657**	23,393,374
	$113,225,428	$118,048,684

	1975	1974
Application of Funds:		
Payment of long-term debt	**$ 8,085,308**	$ 7,978,860
Conversion of notes	**737,000**	6,000,000
Cash dividends	**7,033,407**	5,834,440
Cash paid in lieu of fractional shares	**105,165**	62,273
Investments in affiliates	**1,036,213**	1,010,530
Property, plant and equipment	**71,784,733**	64,520,810
Increase in accounts and notes receivable	**6,025,602**	7,056,708
Increase in inventories	**7,272,412**	16,577,963
Increase in investment in property	**9,797,852**	8,191,383
Increase in deposits and prepaid expense	**497,218**	148,266
Other	**850,518**	667,451
	$113,225,428	$118,048,684

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

The Southland Corporation and Subsidiaries
Years ended December 31, 1975 and 1974

1. ACCOUNTING POLICIES:

Principles of Consolidation

The financial statements include the assets, liabilities, sales, costs and expenses of all subsidiaries. Intracompany transactions have been eliminated. The classifications currently in use have been applied to the statements for 1974.

Investments in United Kingdom and Mexico affiliates (substantially 50% owned at December 31, 1975) are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition.

Foreign Operations

Operations and earnings of foreign subsidiaries and affiliates are converted to U.S. dollars at the average rates of exchange during the reported periods. Property, plant and equipment accounts are converted at rates of exchange in effect when acquired. All other assets (including inventories, which have a relatively short holding period) and liabilities are converted at the rates of exchange in effect at the close of the reported periods. Exchange rate adjustments are charged or credited to income. Such adjustments have not been material.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market, which, as to merchandise in stores, is determined by the retail inventory method. There is no significant effect arising from inflation, as the holding period for items in inventory is relatively short.

Property, Plant and Equipment

Provision for depreciation has been made at annual rates based upon the estimated useful lives of assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is the shorter. Maintenance and repairs are charged to income, whereas renewals and betterments are capitalized.

Revenues

Net sales comprises sales of products and merchandise (including sales through stores operated by individual Southland franchisees) and other operating revenues which consist principally of truck rentals.

Sales through stores operated by other companies under United States area franchises and a foreign license agreement are not included. All fees or royalties arising from such agreements are included in other income. Initial fees are deferred until the services required under the agreements have been performed.

2. INVESTMENTS IN FOREIGN AFFILIATES:

The Company, at December 31, 1975, owned a 50% interest in each of two United Kingdom affiliates. Southland-Cavenham Limited, through subsidiaries which are wholly owned, operates retail stores located in England and Scotland. Cavenham-Southland Limited, through subsidiaries that are wholly owned, operates retail grocery stores located in England, Scotland and Wales.

Equity in earnings of United Kingdom affiliates is included from the effective dates of acquisition. The year for determining earnings of these affiliates ends in October. Equity in such earnings is stated net of interest on borrowings used to make the investments, amortization of the excess of the investments over the net assets acquired (straight-line over 40 years), foreign income taxes and a provision for United States federal income taxes.

After year-end, Southland disposed of its 50% interest in Cavenham-Southland Limited, increased its interest in Southland-Cavenham Limited to 69%, and acquired an option to buy the remaining 31% interest. Such transactions have not been reflected in the financial statements and did not result in any gain or loss to be reported in future statements. If such transactions had been consummated at the beginning of the year ended December 31, 1975, there would have been no material change in net income from that reported for the year.

3. ACCOUNTS AND NOTES RECEIVABLE:

	1975	1974
Trade	**$34,584,556**	$29,981,589
Franchisee	**26,827,841**	25,505,647
	61,412,397	55,487,236
Less allowance for doubtful accounts	**1,641,828**	1,742,269
	$59,770,569	$53,744,967

4. INVESTMENT IN PROPERTY:

Investment in property includes land and buildings to be mortgaged or to be sold to outsiders for cash and leased back. Working capital is used in the construction of new facilities, and the Company expects that cash will be realized for such assets within a 12-month period.

5. PROPERTY, PLANT AND EQUIPMENT:

	1975	1974
COST:		
Land	**$ 37,140,032**	$ 31,658,957
Buildings and leaseholds	**156,894,825**	140,176,652
Machinery and equipment	**195,191,213**	163,439,181
Vehicles	**34,628,446**	28,113,415
Construction in process	**3,812,166**	10,783,475
	427,666,682	374,171,680
Less accumulated depreciation	**137,083,339**	120,307,857
	$290,583,343	$253,863,823

Approximately 34% of the net book value of property, plant and equipment is mortgaged.

6. LONG-TERM DEBT:

At December 31, 1975, long-term debt and amounts due within one year, which are included in current liabilities, were as follows:

	Amount outstanding	Current portion	Balance included in long-term debt
4%-9.86% Real estate and equipment notes (mature 1976 to 2005)	$ 90,725,372	$4,627,439	$ 86,097,933
5¾% Convertible subordinated notes due 1987	3,813,000	—	3,813,000
5% Convertible subordinated debentures due 1987	30,000,000	—	30,000,000
	$124,538,372	$4,627,439	$119,910,933

The 5¾% convertible notes and the 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into common stock of the Company. The present conversion ratios are 76.25 and 26.02 shares of stock, respectively, for each $1,000 of principal. As to the 5¾% convertible notes, the ratio decreases to 72.48 shares on December 1, 1977. At December 31, 1975, there were 1,071,341 shares of common stock reserved for the conversion of the notes and debentures. Required principal payments on the 5¾% convertible notes are due annually beginning November 30, 1978, in an amount equal to 10% of the aggregate principal amount outstanding one year prior to the date of the first payment.

At December 31, 1975, the aggregate amount of long-term debt maturities is as follows for the years ending December 31: 1976—$4,627,439; 1977—$4,585,014; 1978—$4,326,951; 1979—$3,636,055; 1980—$3,342,126.

7. DEFERRED CREDITS:

For financial reporting purposes, investment credits relating to leased and purchased equipment, which are allowed as credits against federal income taxes, are taken into income ratably over the terms of the leases or the useful lives of the assets, respectively.

Deferred federal income taxes result primarily from the use of accelerated depreciation methods for tax purposes.

	Investment credit	Deferred federal income taxes	Other	Total
Balance January 1, 1974	$ 5,799,273	$10,890,240	$1,166,792	$17,856,305
Provided for the year	2,660,000	1,205,000	60,475	3,925,475
Taken into income	(1,806,228)	—	—	(1,806,228)
Balance December 31, 1974	6,653,045	12,095,240	1,227,267	19,975,552
Provided for the year	3,411,000	1,729,000	71,291	5,211,291
Taken into income	(1,854,787)	—	—	(1,854,787)
Balance December 31, 1975	$ 8,209,258	$13,824,240	$1,298,558	$23,332,056

8. COMMON STOCK:

At December 31, 1975, under an employees' stock option plan which terminated during 1974, options for 115,354 shares of the Company's stock at prices ranging from $17.28 to $31.55 were outstanding, of which 88,901 shares were exercisable. During 1975, 33,075 shares were issued upon exercise of options at prices ranging from $17.25 to $19.82, and options for 19,346 shares expired or were cancelled. During 1974, 311 shares were issued upon exercise of options at prices ranging from $18.13 to $21.84; and options for 28,029 shares expired or were cancelled.

Approximately 12,000 shares of the Company's stock will be issued in 1976 under a key employees incentive plan. A total of 103,000 shares have been reserved for issuance pursuant to the plan.

The above information has been adjusted for stock dividends and stock splits.

9. LEASE COMMITMENTS:

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 15 to 20 years, with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years.

Property and equipment rentals included in the Statement of Consolidated Earnings of $54,682,000 in 1975 and $50,870,000 in 1974 have been reduced by $3,019,000 in 1975 and $2,660,000 in 1974 for all rentals received from subleases. Minimum rentals on noncapitalized financing leases (as defined by the Securities and Exchange Commission) were $40,168,000 in 1975 and $38,641,000 in 1974. Contingent rentals, based on sales volumes, exceeded minimum rentals by $1,570,000 in 1975 and $1,242,000 in 1974. Substantially all contingent rentals in 1975 and 1974 were applicable to the noncapitalized financing leases.

Minimum rental commitments (principally real estate leases), exclusive of taxes and insurance payable by the Company, for noncancelable leases in effect at December 31, 1975 are approximately as follows for the periods specified:

	Minimum rental commitments			
Years	**Noncapitalized financing leases**	**Other leases**	**Minimum rentals from subleases**	**Net minimum rental commitments**
1976	$ 42,921,000	$ 5,918,000	$2,063,000	$ 46,776,000
1977	41,462,000	4,803,000	1,616,000	44,649,000
1978	39,362,000	3,746,000	1,303,000	41,805,000
1979	37,289,000	2,646,000	1,052,000	38,883,000
1980	34,999,000	1,625,000	754,000	35,870,000
1981-1985	137,376,000	3,341,000	1,707,000	139,010,000
1986-1990	101,367,000	336,000	550,000	101,153,000
1991-1995	40,934,000	190,000	127,000	40,997,000
Thereafter	2,296,000	15,000	—	2,311,000
Total	$478,006,000	$22,620,000	$9,172,000	$491,454,000

The present value of minimum rental commitments for noncapitalized financing leases was $277,365,000 at December 31, 1975 and $263,654,000 at December 31, 1974, of which $233,651,000 and $212,927,000 were real estate leases and $43,714,000 and $50,727,000 were equipment leases. Interest rates, implicit

in the terms of each lease at the time of entering into the leases, were used in computing present value and range from 5% to 9.75%. In 1975, the weighted average of such interest rates was 7.9%. At December 31, 1975, and at December 31, 1974, the then present value of rentals to be received from noncancelable subleases included above was $1,310,000 and $1,533,000 respectively.

If all noncapitalized financing leases were capitalized, net income would have been reduced by $2,560,000 (14¢ per share) in 1975 and by $2,356,000 (13¢ per share) in 1974. In making this computation, amortization of the present value at the beginning of their respective terms of noncapitalized financing leases ($23,764,000 in 1975 and $23,487,000 in 1974) and implicit interest ($21,326,000 in 1975 and $19,685,000 in 1974) were included.

10. INCOME TAXES:

Income taxes provided for are summarized below:

	1975	1974
Federal:		
Current	**$24,919,000**	$21,076,000
Deferred	**5,140,000**	3,865,000
State	**4,400,000**	3,777,000
	$34,459,000	**$28,718,000**

11. EARNINGS PER SHARE:

Primary earnings per share are based upon the average number of shares outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share, assuming full dilution, are based upon (a) the number of shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible notes and debentures at the stated conversion rates at the earliest possible dates (related interest requirements eliminated), (c) the number of shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with proceeds and (d) average shares issuable under the key employee incentive plan.

TOUCHE ROSS & CO.

2001 BRYAN TOWER, SUITE 2400
DALLAS, TEXAS 75201

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheet of The Southland Corporation and subsidiaries as of December 31, 1975 and 1974, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1975 and 1974, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Dallas, Texas
February 16, 1976

SHAREHOLDER INFORMATION

SECURITIES TRADED:
COMMON STOCK
New York Stock Exchange
5% CONVERTIBLE SUBORDINATED DEBENTURES
Luxembourg Stock Exchange

TRANSFER AGENT AND REGISTRAR:
First National Bank in Dallas
Dallas, Texas

ANNUAL MEETING:
The Annual Meeting of the Company will be held at 10 a.m., Wednesday, April 28, 1976, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

FORM 10-K:
Shareholders may obtain without charge a copy of the Company's 1975 Form 10-K. A copy of any exhibit filed with the Securities and Exchange Commission in connection with the 1975 Form 10-K will be furnished upon receipt of payment of a fee of 20¢ per page, plus postage. Written request should be addressed to Mr. W. K. Ruppenkamp, Vice President, Financial Relations, at the Company's mailing address.

AUTOMATIC STOCK PURCHASE PLAN:
Now available to shareholders is an opportunity to invest quarterly cash dividends in additional shares of The Southland Corporation through the recently announced Automatic Stock Purchase Plan. The service is offered by The Chase Manhattan Bank, N.A., New York, NY. A brochure describing the Plan is available to shareholders through the Financial Relations Department at the Company's mailing address.

MAILING ADDRESS:
P. O. Box 719, Dallas, Texas 75221

TELEPHONE:
214/828-7011 (CENTREX)

BOARD OF DIRECTORS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
Vice Chairman of the Board

JERE W. THOMPSON
President

WEBSTER ATWELL
of Counsel,
Atwell, Cain & Davenport

J. Y. BALLARD
Independent Consulting Engineer

WALTON GRAYSON, III
Executive Vice President

W. W. OVERTON, JR.
Investments

CLIFFORD W. WHEELER
Vice President

OFFICERS

JOHN P. THOMPSON
Chairman of the Board and Chief Executive Officer

H. E. HARTFELDER
Vice Chairman of the Board

JERE W. THOMPSON
President

WALTON GRAYSON, III
Executive Vice President,
Administration and Services

JOSEPH S. HARDIN
Executive Vice President,
Planning and Special Operations

M. T. COCHRAN, JR.
Vice President,
Dairies Group

S. R. DOLE
Vice President,
Company Franchised Convenience Stores

VAUGHN R. HEADY
Vice President,
Company Convenience Stores

FORREST STOUT
Vice President,
Southern Stores Region

CLIFFORD W. WHEELER
Vice President,
New Areas

CLARK J. MATTHEWS, II
Vice President,
General Counsel

W. K. RUPPENKAMP
Vice President,
Financial Relations

R. G. SMITH
Secretary and Treasurer

P. EUGENE PENDER
Controller

NOTES

THE SOUTHLAND CORPORATION 1975 ANNUAL REPORT

THE SOUTHLAND CORPORATION 1975 ANNUAL REPORT

2828 North Haskell — Dallas, Texas 75204